

# **PUBLIC DISCLOSURE**

**February 6, 2003**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Heritage Community Bank  
20078**

**18301 South Halsted Street  
Glenwood, Illinois 60425**

**Federal Deposit Insurance Corporation  
Division of Supervision and Consumer Protection  
500 West Monroe Street Suite 3500  
Chicago, Illinois 60661**

**NOTE:** This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

## TABLE OF CONTENTS

I.	General Information.....	1
II.	Institution Rating .....	2
III.	Description of Institution.....	2
IV.	Description of Assessment Area .....	4
V.	Conclusions .....	8

## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Heritage Community Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **February 6, 2003**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## INSTITUTION RATING

***INSTITUTION'S CRA RATING:*** This institution is rated Outstanding.

Heritage Community Bank's performance reflects an outstanding level of serving the credit needs of the most economically disadvantaged areas of the assessment areas consistent with safe and sound banking practices. This rating is based on the institution's continued involvement with a community development corporation, the number and dollar amount of community development lending since the last evaluation, and the income distribution and geographic distribution of the small business and HMDA reportable loans originated in 2001 and 2002. Also, consideration was given to the percentage of loans in the assessment area and the average loan-to-deposit ratio.

The following is a summary of the evaluation findings:

- The continued investment and service support provided a community development corporation enhances credit availability in the assessment area.
- Since the last evaluation in 1997 approximately \$3.8 million in community development loans have been originated.
- The percentage of small business loans under \$100,000 is reasonable. Furthermore, the percentage of Bank's HMDA reportable loans originated during the evaluation period to low-income borrowers and the percentage to moderate-income borrowers is reasonable.
- The geographic distribution of the small business loans and HMDA reportable loans reflect reasonable dispersion throughout the assessment area.
- The borrower and geographic distribution of residential lending originated in the secondary market is reasonable. The number and dollar amount to low-and moderate-income borrowers and in low or moderate-income census tracts is sufficient.
- A majority of the loans by number is in the assessment area.
- At 79 %, the average loan-to-deposit ratio is more than reasonable considering the bank's size, location and the challenges that exist to lending in the low-income census tracts.
- There have been no CRA-related complaints since the last evaluation.

## DESCRIPTION OF INSTITUTION

Heritage Community Bank is a \$236,161,000 community bank wholly owned by Heritage Community Holdings Bancorporation, Inc., a one-bank holding company. The bank offers a full line of loan and deposit products, including commercial real estate and residential real estate loans. Home improvement, auto loans, and deposit-secured loans are also available. The bank also offers long term fixed rate residential mortgages through a secondary market lender. In addition to the main office in Glenwood, Illinois, the bank operates branches in Riverdale, Dolton, Orland Hills, and Westmont. It has ATMs at all of the locations. Lobby and Drive-up

hours differ at the offices to be competitive with other institutions in the assessment areas. The Riverdale lobby has longer hours because the drive-up facility is not open due to a substantial decrease in transactions occurring at the drive-up. Some one wanting to use a drive-up can go to the Dolton office, which is only a few minutes away. The Riverdale office is located in a low-income census tract. The Dolton, Westmont and Orland Hills offices are located in middle-income census tracts.

As of September 30, 2002, the bank had \$169,893 in net loans. According to the September 30, 2002 Consolidated Report of Conditions and Income, the majority of the dollar amount of the loan portfolio, 85%, is secured by real estate (See Table 1). The 1-4 family mortgage activity is largest portion of the real estate lending at 57% of the outstanding loan portfolio. The majority of the 1-4 family loans (60%) is home equity lines of credit.

The bank's lending focus is commercial loans and residential loan production. At the last evaluation, the bank had a significant volume of home equity lines of credit (HELOCs). It represented 52% of all the loans by number. Though this product continues to be offered, it only represents 33% of the loan portfolio as of 9/30/02 and therefore was not used to determine the public evaluation rating.

The decrease in HELOCs is due to the increase in market competition and the refinancing activity of first and second mortgages into a single first mortgage with a low fixed rate interest rate. Loan growth has occurred in the commercial loan category and in the 1-4 family loans for home improvement. As a result net loans have increased from 3/31/97 to 9/30/02 by 30%.

<i>Table 1 – Loan Distribution as of 09/30/02</i>		
<i>Loan Type</i>	<i>Dollar Amount (000s)</i>	<i>Percent of Total Loans (%)</i>
<i>Construction and Land Development</i>	12,103	7%
<i>Secured by Farmland</i>	0	
<i>1-4 Family Residential</i>	96,799	57%
<i>Multi-Family (5 or more) Residential</i>	8,522	5%
<i>Commercial</i>	28,523	16%
<b><i>Total Real Estate Loans</i></b>	<b><i>145,947</i></b>	<b><i>85%</i></b>
<i>Commercial and Industrial</i>	24,028	14%
<i>Agricultural</i>	0	0%
<i>Consumer</i>	897	0.5%
<i>Other*</i>	743	0.4%
<i>Less: Unearned Income and loan loss allowance</i>	1,722	(1%)
<b><i>Net Loans</i></b>	<b><i>169,893</i></b>	<b><i>100%</i></b>

*Source: Report of Condition*

The bank has no financial or legal impediments inhibiting its ability to provide credit within the established assessment area. The bank operates in a competitive financial arena in both the

residential real estate and commercial loan sectors. For example, in the 5 villages that Heritage Community Bank has a branch, 31 other banks have offices. According to the FDIC/OTS Summary of Deposits as of 6/30/02, Heritage Community Bank ranked 5th with a 6% market share. The top 4 market shareholders are large institutions with a total of 929 branches in several states.

In addition, numerous mortgage companies and finance companies have a presence in the assessment areas. In 2001, 452 HMDA Reporters originated or purchased 29,032 loans for \$2.9 billion with an average loan size of \$102,000 in the assessment areas. Also in 2001, 15,055 CRA reporters originated \$716 million small business loans.

## **DESCRIPTION OF ASSESSMENT AREAS**

### **Scope of Evaluation**

A full scope on-site evaluation of the assessment areas was completed. Heritage Community Bank has designated 158 census tracts in Cook and DuPage counties to form three separate assessment areas:

- **GLENWOOD:** The assessment area for the Glenwood, Riverdale and Dolton branches consists of 111 census tracts in Cook County. All of the low-and moderate-income census tracts are all located near the Riverdale and Dolton branches. In addition to the 7 (6%) low-income census tracts and 26 (23%) moderate-income tracts, 65 (59%) census tracts are middle-income, 12 (11%) are upper-income census tracts and 1 is an NA tract (1%). Some of the villages in the assessment area include the southeastern portion of the City of Chicago, Riverdale, Harvey, Chicago Heights, and Dixmoor.
- **ORLAND HILLS:** The assessment area for the Orland Hills branch consists of 10 census tracts. Four (40%) of the tracts are middle-income, 5 (50%) are upper-income, and 1 (10%) is NA. The NA tract is the mental health facility located in Tinley Park.
- **WESTMONT:** The assessment area for the Westmont branch consists of 37 census tracts in Cook and DuPage counties. Ten (27% %) of the tracts are middle-income and 27 (73%) are upper-income census tracts.

The assessment areas are in conformance with the Community Reinvestment Act regulation because they consist of whole geographies, include the areas surrounding the branches, and do not arbitrarily exclude low-or moderate-income geographies.

Unless otherwise stipulated, the demographic information used in this evaluation was derived from 1990 census data. The 1990 median family income (MFI) for the Chicago Metropolitan Statistical Area of the State of Illinois is \$39,296. Borrower income classifications are based on the Department of Housing and Urban Development's (HUD) adjusted median family income for the location of the borrower (MFI) for the Chicago MSA 1600 of the State of Illinois for the year in which the credit originated. The estimated MFI figures for 2001, and 2002 are \$70,500 and \$75,400 respectively. To illustrate the ranges, Table A provides information on the breakdown of incomes in 2002.

<b>Income Level</b>	<b>Percent of MFI</b>	<b>Income Range</b>
Low	Less than 50%	Less than \$37,692
Moderate	50% to 80%	\$37,692 to \$60,312
Middle	80% to 120%	\$60,312 to \$90,480
Upper	120% and over	\$90,480 and over

The 1990 Median Family Income (MFI) figure for Chicago MSA 1600 is used to determine the income category of each geography. Income ranges are categorized as follows: low-income (0-49 percent), moderate-income (50-79 percent), middle-income (80-119 percent), and upper-income (120 percent or more) of the median family income.

At the prior evaluation conducted on June 19, 1997 the bank received an outstanding rating.

Throughout the analysis portion of the evaluation median household income is used instead of median family income.

Table 2 compares selected demographic about the housing, income and family characteristics of the three assessment areas to the combined assessment area. The combined assessment area characteristics do not reflect the limited lending opportunities or barriers in the Glenwood assessment area. Glenwood is distinct from the other two assessment areas. The Glenwood assessment area contains all of the low- and moderate-income census tracts and presents a more challenging lending market. In general the Westmont and Orland Hills assessment areas are similar, and the differences do not effect lending opportunities and do not need to be explained.

The Glenwood assessment area has most of the mobile homes and rental properties. Furthermore, the Glenwood assessment area has twice as many low-income households and 50% more moderate-income households than the Westmont or Orland Hills assessment areas. The percentage of owner-occupied housing units at 67% is significantly less than the 74% rate in the Westmont and the 84% rate in the Orland Hills assessment areas.

Though not shown in Table 2, the seven low-income census tracts are located in the villages of Riverdale, Harvey, Chicago, and Chicago Heights. These seven tracts have a 90% housing occupancy rate, but only a 28% ownership rate. This means that 72% of the housing units are rental. These rentals are mostly 1-4 family dwellings since only 22% of the housing units are multifamily. All of the moderate-income census tracts are also in the Glenwood assessment area. Though not as extreme as the low-income census tracts, the moderate-income census tracts have a 39% rental unit rate and only a 56% homeownership rate. In summary, the income levels and housing characteristics in the Glenwood assessment area may limit the amount of direct lending the bank will have an opportunity to originate.

The demographic data in Tables 6 to 18 is the combined assessment areas. In addition, the demographic characteristics of the low-and moderate-income census tracts must be considered when evaluating the bank's performance overall.

<b>Table 2 – Demographic &amp; Economic Characteristics of the Assessment Area</b>				
	Assessment Areas Combined	Riverdale/ Dolton Glenwood	Orland Hills	Westmont
Population in Areas: Total Population	800,995	493,973	69,560	237,462
<u>Median Household Income:</u> 1990 Median Household Income	\$40,822	\$34,252	\$49,814	\$50,983
<u>Households Below Poverty Level:</u>	7.7%	10.9%	2.8%	2.7%
<u>Percentage of Households</u> Low-Income	20%	25%	9%	12%
Moderate-Income	15%	17%	11%	11%
Middle-Income	22%	23%	21%	20%
Upper-Income	43%	34%	59%	57%
<u>Number of Housing Units:</u> 1-4 Family Residential	233,530	145,823	19,258	68,449
Multi-Family	57,147	29,049	3,803	24,295
Owner-Occupied Housing Units	209,027	120,201	19,529	69,297
Occupied Rental Housing Units	73,233	49,714	2,978	20,541
Vacant Housing Units	14,291	9,638	700	3,953
<u>Percentage of Total Housing Units:</u> 1-4 Family Residential	79%	81%	83%	73%
Multi-Family	19%	16%	16%	26%
Mobile Home or Trailer	1%	2%	0%	<1%
Other	1%	1%	1%	<1%
Owner-Occupied Housing Units	70%	67%	84%	74%
Occupied Rental Housing Units	25%	28%	13%	22%
Vacant Housing Units	5%	5%	3%	4%
<u>Median Housing Characteristics:</u> Median Age in Years	27	44	21	35
Median Home Value	\$110,793	\$68,137	\$139,453	\$168,159
Median Gross Rent	\$514	\$457	\$618	\$634

- This figure is based on estimates from the Department of Housing and Urban Development (HUD). Information in this table is based on the 1990 Census Information.

Table 3 shows the demographics of the 3 combined assessment areas. It indicates that the residential 1-4 family real estate lending in the low-income census tracts may be limited because only 1% of the owner occupied housing units and only 4% of the assessment area households live in the low-income census tracts. The table also indicates that most of the residential real estate lending should be in the middle and upper-income census tracts because 87% of the owner occupied housing units are in these tracts.



<b>Table 3 – Selected Housing Characteristics by Income Category of the Geography</b>									
<b>Geographic Income Category</b>	<b>Percentage</b>						<b>Median</b>		
	<b>Census Tracts</b>	<b>Households</b>	<b>Housing Units</b>	<b>Owner-Occupied</b>	<b>Rental Units</b>	<b>Vacant Units</b>	<b>Age*</b>	<b>Home Value*</b>	<b>Gross Rent**</b>
<b>Low</b>	4	3	4	1	8	7	36	\$44,493	\$306
<b>Moderate</b>	17	14	15	12	22	22	36	\$52,974	\$442
<b>Middle</b>	50	50	49	49	51	48	29	\$81,325	\$543
<b>Upper</b>	28	33	32	38	19	23	22	\$166,990	\$614
<b>NA</b>	1	0							
<b>Total or Median ***</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	27	110,793	\$514

*Source: 1990 U.S. Census, \* - Owner-Occupied Units, \*\* - Renter-Occupied Units, \*\*\* - Total Percentage may not add to 100 due to rounding.*

Table 4 indicates that only 2% of the businesses are located in the low-income census tracts. The lending opportunities in the low-income tracts are limited to 632 businesses. Therefore, the opportunities to lend in these areas are limited.

<b>Table 4– Distribution of Business Establishments By Income of Tract</b>			
<b>Income Level of Census Tract</b>	<b>Percentage of Tracts</b>	<b>Number of Businesses</b>	<b>Percentage of Businesses</b>
Low	4%	632	2%
Moderate	17%	3,189	8%
Middle	50%	15,964	42%
Upper	28%	18,679	48%
N/A	1%	Not tracked	N/A
<b>TOTAL</b>	<b>100%</b>	<b>38,464</b>	<b>100%</b>

Source: 2002 Business Geodemographic Data

Tables 5 indicate that 69% of the businesses in the assessment area have gross revenues of less than \$500,000 and over 50% of the businesses have less than 5 employees. These facts show a need for small business lending. Furthermore a business with revenues under \$500,000 is mostly like to borrow in amounts of less than \$1 million. A community contact in the Orland Hills assessment area stated that the local economies are stable. The villages rely on retail sales revenue to provide municipal services and retail sales have been steady. Yet unemployment rates in the villages in the low- and moderate-income areas indicate that those economies are not as strong. A comparison of a few villages in the different assessment areas clearly shows this. According to the Bureau of Labor Statistics as of the third quarter of 2002, the villages of Orland Park and Downers Grove had an unemployment rate of 4.8% but Dolton had a 10.9% and Harvey had a 12% unemployment rate.

<b>Table 5 – Characteristics of Small Business Establishments</b>			
Employee Size	Percentage of Businesses	Revenue Distribution	Percentage of Businesses
1-4	52%	Less than \$500,000	69%
5-9	13%	\$500,000 – 999,999	6%
10-19	9%	\$1 million – \$24 million	9%
20-49	6%	\$25 million – \$49 million	<1%
50 or more	4%	\$50 million or more	<1%
Not Reported	16%	Not Reported	15%

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Data Sampled

The 82 small business loans, the 115 originated HMDA reportable loans reported in 2001 and 2002, and the loans approved in 2001 and 2002 in the secondary market were used to complete the evaluation. Small business loans were used because commercial lending is a significant portion of loans originated since the last evaluation. A small business loan is a loan in the amount of \$1 million or less. HMDA reportable loans are included in the evaluation because the bank is required to collect and report the information on the 1-4 family, and home lending is a significant portion of the lending activity. The secondary market loans were included because the bank chose to collect and maintain the required information.

### Assessment Area Concentration:

The bank establishes its assessment areas based on the HMDA reportable and commercial loans it originates. In total, a majority of the number of loans originated in 2001 and 2002 are inside the assessment area (see Table 6). In the HMDA reportable loans and the commercial loan categories a majority by number of loans are inside the assessment. These are the two categories the bank has direct control over. The secondary market loans have a broader marketing base. These loans are sold in the secondary market and the bank is not attempting to establish a long-term consumer relationship. As a result, the origin of these loan applications cover a larger area and therefore only about one-half of the loans are within the assessment area.

A majority of the HMDA reportable loans by dollar amount are inside the assessment area at 56% in 2001 and 62% in 2002. Outside of the assessment area the bank originated 3 large loans that caused only 39% of the commercial loans by dollar amount to be in the assessment area. More weight is placed on the number of loans than the dollar amount of the loans. Given the method used by the bank to establish the assessment areas, the number of loans inside the assessment area is reasonable.

<b>Table 6 – Distribution of Loans Inside and Outside of the Assessment Area</b>										
<b>Loan Category or Type</b>	<b>Number of Loans</b>					<b>Dollars in Loans (000s)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
HMDA - Bank Reported										
2001	21	60	14	40	35	1,619	56	1,282	44	2,901
2002	51	65	28	35	79	4,014	62	2,483	38	6,497
Secondary Market										
2001	144	50	146	50	290	20,418	45	24,846	55	45,184
2002	156	48	167	52	323	21,469	45	26,497	55	47,966
Commercial										
2001	28	52	26	48	54	3,653	39	5,656	61	9,309
2002	16	57	12	43	28	2,042	39	3,209	61	5,251
<b>Total</b>										
2001	193	51	186	49	379	25,690	45	31,784	55	57,474
2002	223	52	207	48	430	27,525	46	32,189	54	59,714
<b>Grand Total</b>	<b>416</b>	<b>51</b>	<b>393</b>	<b>49</b>	<b>809</b>	<b>53,215</b>	<b>45</b>	<b>63,973</b>	<b>55</b>	<b>117,188</b>

Source: HMDA Statements (2001), HMDA LAR (2002,) Bank Records

### **Lending to Borrowers of Different Income and Businesses of Different Sizes:**

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. The small business loans distribution is shown in Tables 7 and 8. The bank's HMDA reportable loans are shown in Tables 9 and 10. The borrower distribution of loans originated through the secondary market is shown in Tables 11 and 12.

#### **Small Business by Loan Size**

In Tables 7 and 8 the distribution of small business loans is analyzed by loan size. Heritage Community Bank did lend over 80% of the number of loans for amounts less than \$250,000 in both years. The fact that 52% of the businesses have only 1-4 employees and 69% has less than \$500,000 in annual revenues, indicates business's have a need for small loans. The bank's willingness to fund the small business owner's credit needs is further evident by the fact that over 60% by number in both 2001 and 2002 and 24% in 2001 and 15% in 2002 by dollar amount of the loans is under \$100,000.

Using loan size as a proxy for revenue, in 2001 89% of the number of loans and 55% of the dollar amount of the loans were originated to borrowers with revenues under \$500,000. In 2002

the percentages increased to 94% and 67%, respectively. These percentages are comparable to the 69% of the businesses in the assessment areas that have revenues of less than \$500,000.

Table 7– Distribution of Small Business Loans by Loan Size 2001					
Loan Size (000s)		Total			
		#	%	\$ (000)	%
≤ \$100		19	68%	864	24%
> \$100 to ≤ \$250		6	21%	1,163	32%
> \$250 to ≤ \$500		1	4%	500	13%
> \$500 to ≤ \$1,000,000		2	7%	1,126	31%
Total*		28	100%	3,653	100%

Source: Bank Data, \*- Total percentage may not add to 100 due to rounding.

Table 8 – Distribution of Small Business Loans by Loan Size 2002					
Loan Size (000s)		Total			
		#	%	\$ (000)	%
≤ \$100		10	62%	300	15%
> \$100 to ≤ \$250		3	19%	500	24%
> \$250 to ≤ \$500		2	13%	605	30%
> \$500 to ≤ \$1,000,000		1	6%	637	31%
Total*		16	100%	2,046	100%

Source: Bank Data, \*- Total percentage may not add to 100 due to rounding.

#### Heritage Community Bank's HMDA reportable loans

Given that approximately 80% of the loans in Tables 9 and 10 are home improvement loans and adjusting for the percentage of households living below the poverty level the distribution is reasonable. The 2001 and 2002 HMDA reportable loans are shown in Table 9 and 10. Approximately 80% of the HMDA reportable loans originated by the bank are home improvement loans. A low-income homeowner may not have the disposable income to service the additional debt load created by a home improvement loan. Therefore, since the bank originated 2 loans to low-income borrowers in both 2001 and 2002 this is considered reasonable. As a percentage, the 10% by number and the 4% by dollar amount to low-income borrowers is similar to the 2001 Aggregate HMDA Lenders. If the 20% of the households that are low-income are adjusted for the 8% of households living below the poverty level, the bank's record of lending to low-income borrowers is comparable to the percentage of low-income households.

Households living below the poverty level probably do not have the disposable income needed to service a mortgage loan.

In 2001, 10% of the loans by number were originated to moderate-income borrowers. At 10% the bank's distribution is slightly less than the 2001 Aggregate HMDA reporters. In 2002, the bank improved its distribution to moderate-income borrowers, increasing the number of loans to moderate-income borrowers from 2 in 2001 to 15 in 2002 and increasing the percentage from 10% to 29%.

Because the 2002 Aggregate HMDA reporter data is not yet available, the 2001 data is used in Table 10 as a comparison for the bank's lending activities. The bank's lending activity to moderate-income borrowers exceeds the percentage lending by the Aggregate 2001 HMDA Reporters to moderate-income households. In 2002, the percentage of loans to moderate-income borrowers surpassed the percentage of moderate-income households.

The dollar amount to moderate-income borrowers followed a similar pattern to the number of loans. From 2001 to 2002, the dollar amount increased to moderate-income borrowers from 3% to 19%, again surpassing the percentage of moderate-income households.

<b>Table 9 – Distribution of 2001 HMDA Reportable 1-4 family Loans by Borrower Income</b>							
<b>Borrower Income Level</b>	<b>% of Aggregate 2001 HMDA Reporters by #</b>	<b>% of Aggregate 2001 HMDA Reporters by \$</b>	<b>Percentage of Households in this income category</b>	<b>2001 HMDA #</b>		<b>2001 HMDA by \$</b>	
				<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Low</b>	8%	4%	20%	2	10%	65	4%
<b>Moderate</b>	17%	10%	15%	2	10%	40	3%
<b>Middle</b>	21%	17%	22%	5	23%	243	15%
<b>Upper</b>	30%	45%	43%	12	57%	1,271	78%
<b>NA*</b>	24%	24%	0%	0	0%	0	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>21</b>	<b>100%</b>	<b>1,619</b>	<b>100%</b>

Source Bank Records and FFIEC HMDA aggregate reports\* - Total percentage may not add to 100 due to rounding. \*The NA is mostly due to the fact that income is not collected for a multi-family loan and purchased loans.

Table 10 – Distribution of 2002 HMDA Reportable 1-4 family Loans by Borrower Income							
Borrower Income Level	% of Aggregate 2001 HMDA Reporters by #	% of Aggregate 2001 HMDA Reporters by \$	Percentage of Households in this income category	2002 HMDA by #		2002 HMDA by \$	
				#	%	\$	%
Low	8%	4%	20%	2	4%	45	1%
Moderate	17%	10%	15%	15	29%	764	19%
Middle	21%	17%	22%	11	22%	830	21%
Upper	30%	45%	43%	23	45%	2,375	59%
NA*	24%	24%	0%	0	0%	0	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>51</b>	<b>100%</b>	<b>4,014</b>	<b>100%</b>

Source Bank Records and FFIEC HMDA aggregate reports\* - Total percentage may not add to 100 due to rounding. \*The NA is mostly due to the fact that income is not collected for a multi-family loan.

#### 1-4 Family Loans originated in the Secondary Market

All of the 2001 and 2002 loans originated in the secondary market in Tables 11 and 12 are for the purchase or refinance of a home. In Table 11, the 2001 secondary market activity is compared to the Aggregate 2001 HMDA Reporters and the percentage of households by income level. In the low-income category, the bank matched or slightly exceeded the aggregate numbers by both number and loan amount. Heritage Community Bank's lending is comparable to the low-income households once the low-income household's percentage is adjusted for the percentage of households living below the poverty level. The activity to low-income borrowers was the same in 2002 as in 2001. In 2001, loans to moderate-income borrowers by both number and dollar amount exceeded the 2001 Aggregate HMDA Report percentages and the percentage of moderate-income households. Furthermore, both the number and dollar amount improved in 2002.

<b>Table 11 – Distribution of 2001 Secondary Market 1-4 family Loans by Borrower Income</b>							
<b>Borrower Income Level</b>	<b>% of Aggregate 2001 HMDA Reporters by #</b>	<b>% of Aggregate 2001 HMDA Reporters by \$</b>	<b>Percentage of Households in this income category</b>	<b>2001 #</b>		<b>2001 by \$</b>	
				<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Low</b>	8%	4%	20%	13	9%	971	5%
<b>Moderate</b>	17%	10%	15%	31	22%	2,971	15%
<b>Middle</b>	21%	17%	22%	38	26%	5,008	24%
<b>Upper</b>	30%	45%	43%	61	42%	10,868	53%
<b>NA*</b>	24%	24%	0%	1	1%	600	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>143</b>	<b>100%</b>	<b>20,418</b>	<b>100%</b>

Source Bank Records and FFIEC HMDA aggregate reports\* - Total percentage may not add to 100 due to rounding. \*The NA is mostly due to the fact that income is not collected for a multi-family loan and purchased loans.

<b>Table 12 – Distribution of 2002 Secondary Market 1-4 family Loans by Borrower Income</b>							
<b>Borrower Income Level</b>	<b>% of Aggregate 2001 HMDA Reporters by #</b>	<b>% of Aggregate 2001 HMDA Reporters by \$</b>	<b>Percentage of Households in this income category</b>	<b>2002 #</b>		<b>2002 by \$</b>	
				<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Low</b>	8%	4%	20%	14	9%	1,064	5%
<b>Moderate</b>	17%	10%	15%	41	26%	4,332	20%
<b>Middle</b>	21%	17%	22%	47	30%	5,880	27%
<b>Upper</b>	30%	45%	43%	54	35%	10,193	48%
<b>NA*</b>	24%	24%	0%	0	0%	0	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>156</b>	<b>100%</b>	<b>21,469</b>	<b>100%</b>

Source Bank Records and FFIEC HMDA aggregate reports\* - Total percentage may not add to 100 due to rounding. \*The NA is mostly due to the fact that income is not collected for a multi-family loan and purchased loans.

### **Geographical Distribution of Lending:**

The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas. There are 7 low-income census tracts. These tracts have only 632 businesses with 62% of the businesses considered retail trade and services. In the low-income tracts 76% of the housing units are 1-4 family but only 28% of them are owner-occupied. This means most of the 1-4 family housing is rental units with absentee landlords. With 44% of the households in the low-income census tracts living below the poverty level and 37% relying on public assistance, borrowing capacity by persons living in the low-income census tracts is weak. In summary, given the demographic characteristics of the low-income census tracts, lending in the low-income tracts is reasonable. Additionally, the community development lending that has occurred in the low-and moderate-income census tracts has enhanced the bank's lending in low-and moderate-income census tracts.

Commercial lending in the moderate-income tracts is expected. The moderate-income tracts have 3,189 business establishments and 56% of the businesses in the retail trade or service category. Only 17% of the households live below the poverty level and only 15% rely on public assistance for income. The borrowing capacity of the households in the moderate-income census tracts is adequate. The demand for housing loans should be present because 56% of the 1-4 family housing units are owner-occupied.

In 2001 and 2002, the geographic distribution of the small business loans, the bank's HMDA reportable loans and the secondary market residential lending follows the demographics. That is, some lending activity occurred in the low-income census tracts and more lending occurred in the moderate-income census tracts (See Tables 13-18).

### **Small Business Lending**

Heritage Community Bank's small business distribution is shown in Tables 13 and 14. The lending in low-income census tracts showed improvement from 2001 to 2002. The number and dollar amount of lending in low-income census tracts went from zero in 2001 to surpassing the percentage of businesses and Aggregate CRA reportable loans in 2002. Though the bank is not a CRA small business loan reportable, the data is a useful tool to assessment the bank's small lending performance.

For both 2001 and 2002, in the moderate-income census tracts, the bank's lending by both number and dollar amount surpassed the percentage of businesses located in moderate-income census tracts and the 2001 CRA Aggregate data.



<b>Table 13– 2001 Distribution of Small Business Loans by Income Category of the Census Tract</b>							
<b>Census Tract Income Level</b>	<b>Assessment Area Businesses 2002</b>		<b>% of CRA Reportable Loans in 2001</b>	<b>Small Business Lending Activity in 2001</b>			
	<b>#</b>	<b>%</b>		<b>#</b>	<b>%</b>	<b>\$ (000)</b>	<b>%</b>
<b>Low</b>	632	2%	1%	0	0%	0	0%
<b>Moderate</b>	3,189	8%	8%	5	18%	892	24%
<b>Middle</b>	15,964	42%	4%	14	50%	1,867	51%
<b>Upper /NA</b>	18,679	48%	50%	9	32%	894	25%
<b>Total</b>	<b>38,464</b>	<b>100%</b>	<b>100%</b>	<b>28</b>	<b>100%</b>	<b>3,653</b>	<b>100%</b>

*Source: Bank Records and 2002 Business Geodemographic Data*

<b>Table 14– 2002 Distribution of Small Business Loans by Income Category of the Census Tract</b>							
<b>Census Tract Income Level</b>	<b>Assessment Area Businesses 2002</b>		<b>% of CRA Reportable Loans in 2001</b>	<b>Small Business Lending Activity in 2001</b>			
	<b>#</b>	<b>%</b>		<b>#</b>	<b>%</b>	<b>\$ (000)</b>	<b>%</b>
<b>Low</b>	632	2%	1%	2	13%	279	13%
<b>Moderate</b>	3,189	8%	8%	4	25%	286	14%
<b>Middle</b>	15,964	42%	4%	15	31%	848	42%
<b>Upper /NA</b>	18,679	48%	50%	5	31%	629	31%
<b>Total</b>	<b>38,464</b>	<b>100%</b>	<b>100%</b>	<b>16</b>	<b>100%</b>	<b>2,042</b>	<b>100%</b>

*Source: Bank Records and 2002 Business Geodemographic Data*

### HMDA Reportable Loans

The bank's distribution is reasonable. The following housing and loan type characteristics limits the bank's ability to originate residential mortgage loans in the low-income census tracts. First, only 28% of the housing units in low-income census tracts and slightly more than half in the moderate-income census tracts are owner-occupied. Second, 80% of the HMDA Reportable loans shown in Tables 15 and 16 are home improvement loans. A home improvement loan requires the borrower to own a home. This limits the potential borrowers to the 28% of the housing units that are owner-occupied in the low-income tracts.

Though no lending in low-income census tracts occurred in 2001 and 2002, little is expected given the loan product, the limited owner-occupied housing, and the lack of qualified homeowners (44% of the households live below the poverty level).

Some lending did occur in the moderate-income census tracts. The lending by number and dollar amount in the moderate-income census tracts is less than the HMDA Aggregate lending in 2001 and the percentage of owner occupied housing units. This is reasonable given the type of loan originated and the housing characteristics.

<b>Table 15 – Distribution of 2001 HMDA 1-4 family Loans by Income Category of the Census Tract</b>							
<b>Census Tract Income Level</b>	<b>Percentage 2001 Aggregate HMDA Performance by #</b>	<b>Percentage 2001 Aggregate HMDA Performance by \$</b>	<b>Owner- Occupied Housing Units</b>	<b>2001 by #</b>		<b>2001 by \$</b>	
				<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Low</b>	1%	<1%	4%	0	0%	0	0%
<b>Moderate</b>	8%	3%	15%	1	5%	20	1%
<b>Middle</b>	45%	34%	49%	12	57%	683	42%
<b>Upper</b>	46%	62%	32%	8	38%	916	57%
<b>Total*</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>21</b>	<b>100%</b>	<b>1,619</b>	<b>100%</b>

*Source: Bank Records and FFIEC HMDA aggregate reports - Total percentage may not add to 100 due to rounding.*

<b>Table 16– Distribution of 2002 HMDA 1-4 family Loans by Income Category of the Census Tract</b>							
<b>Census Tract Income Level</b>	<b>Percentage 2001 Aggregate HMDA Performance by #</b>	<b>Percentage 2001 Aggregate HMDA Performance by \$</b>	<b>Owner- Occupied Housing Units</b>	<b>Evaluation Period #</b>		<b>Evaluation Period \$</b>	
				<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Low</b>	1%	<1%	4%	0	0%	0	0%
<b>Moderate</b>	8%	3%	15%	1	2%	80	2%
<b>Middle</b>	45%	34%	49%	28	55%	1,708	43%
<b>Upper</b>	46%	62%	32%	22	43%	2,226	55%
<b>Total*</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>51</b>	<b>100%</b>	<b>4,014</b>	<b>100%</b>

*Source: Bank Records and FFIEC HMDA aggregate reports - Total percentage may not add to 100 due to rounding.*

### Secondary Market Loans

The lending penetration in the low- and moderate-income census tracts of the loans that were originated in the secondary market is reasonable (Tables 17 and 18). The number of loans in the low-income census tracts remained constant at 1 loan in both 2001 and 2002.

Both the number and dollar amount in the moderate-income census tracts increased from 2001 to 2002. Though the number and dollar amount in 2001 to 2002 is below the percentages of the 2001 HMDA Aggregate lenders and the percentage of owner occupied housing units in the moderate-income tracts, it is reasonable.

As stated before, only 28% of the housing units in low-income census tracts and slightly more than half in the moderate-income census tracts are owner-occupied. This low percentage of owner-occupied housing units limits the opportunities to originate residential lending in the low- and moderate-income census tracts.

**Table 17– Distribution of 2001 Secondary Market 1-4 family Loans by Income Category of the Census Tract**

Census Tract Income Level	Percentage 2001 Aggregate HMDA Performance by #	Percentage 2001 Aggregate HMDA Performance by \$	Owner- Occupied Housing Units	2001 by #		2001 by \$	
				#	%	\$	%
<b>Low</b>	1%	<1%	4%	1	1%	100	1%
<b>Moderate</b>	8%	3%	15%	5	3%	427	2%
<b>Middle</b>	45%	34%	49%	76	53%	9,152	45%
<b>Upper</b>	46%	62%	32%	62	43%	10,739	52%
<b>Total*</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>144</b>	<b>100%</b>	<b>20,418</b>	<b>100%</b>

**Table 18 – Distribution of 2002 Secondary Market 1-4 family Loans by Income Category of the Census Tract**

Census Tract Income Level	Percentage 2001 Aggregate HMDA Performance by #	Percentage 2001 Aggregate HMDA Performance by \$	Owner- Occupied Housing Units	2002 by #		2002 by \$	
				#	%	\$	%
<b>Low</b>	1%	<1%	4%	1	1%	52	<1%
<b>Moderate</b>	8%	3%	15%	10	6%	788	4%
<b>Middle</b>	45%	34%	49%	71	46%	8,270	38%
<b>Upper</b>	46%	62%	32%	74	47%	12,359	58%
<b>Total*</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>156</b>	<b>100%</b>	<b>21,469</b>	<b>100%</b>

*Source: Bank Records and FFIEC HMDA aggregate reports - Total percentage may not add to 100 due to rounding.*

As previously noted, the amount of lending by the bank to low-and moderate-income borrowers and in low-or moderate-income census tracts is enhanced by the community development activity that the bank has done.

### **Community Development Activity**

Heritage Community Bank's community development lending, investments and services have enhanced the credit availability in the assessment area. In response to the poor housing conditions in the neighborhoods around the Riverdale branch, the bank established a community development corporation (CDC) to improve the housing stock. Heritage Community Bank assisted the CDC by extending working capital loans to the CDC, providing equipment, and offering technical assistance.

### **Community Development Lending**

Since the last examination the bank has originated 16 community development loans. The bank has originated 14 multi-family loans in the amount of \$3.8 million for the purpose of purchase and rehabilitation in low- and moderate-income census tracts. The purchase and rehabilitation of these units improves the housing conditions in the low-and moderate-income census tracts. There is a need for this type of loan. For example, 72% of the housing units are rental units in the low-income census tracts.

Heritage Community Bank has two operating loans to the Regional Redevelopment Corporation (RRC) for approximately \$61,000. The loans are to cover the day-to-day operations of the Corporation and are repaid from funds generated from the sale of rehabilitated houses.

### **Community Development Investments and Services**

Heritage Community Bank has supplied community development services and donations to a not-for-profit affordable housing organization. The Regional Redevelopment Corporation (RRC) is a not-for-profit corporation. It develops and redevelops decent housing and attempts to expand economic opportunities for low- and moderate-income persons by operating a lease to purchase home program. The RRC establishes a savings account for each potential buyer of a renovated home. As the potential buyer rents the home a portion of the rent is placed in a savings account. Once the amount needed for a downpayment and closing costs is available the renter becomes the owner. Profits from the sale of the home are used to sustain the RRC. In addition to income from the sale of the homes, the RRC has received Community Development Block Grant Funds and HOPE funds. Heritage Community Bank donates to the RRC the payments it receives for the technical advice it provides the RRC under the HOPE grant agreement. Since the last evaluation the donations are approximately \$100,000. The bank has also donated the cost all the mailings for the RRC and has donated office equipment for the organization.

The President of Heritage Community Bank continues to be the President of the RRC, and two Vice Presidents serve as Secretary and on the Advisory Board of the RRC. The bank's involvement occurred because it wanted to improve the neighborhoods around the Riverdale office. Since its conception 11 years ago, the RRC has destroyed 30 homes to allow for new construction, build a senior citizen housing complex in Riverdale and has begun construction of a 96 unit \$9.7 million mixed-income housing complex. This 96-unit complex is being funded with assistance for the Federal Home Loan Bank, State of Illinois DECA, low income tax credits and a \$1.8 million risk-sharing 40-year loan from Cook County.

Furthermore, the bank had applied to be a recipient of the Bank Enterprise Award Program from the Community Development Financial Institutions Fund in 2002 to develop a small business loan programs. The program would lend small dollar amounts to start new businesses or expand existing businesses in a targeted area. The bank was not granted an award due to lack of funds available from the Community Development Financial Institutions Fund.

### **Loan to Deposit Ratio**

The bank's loan-to-deposit ratio is more than reasonable given the bank's size, the competitive market it operates in, and the credit needs of the Glenwood portion of the assessment areas. The average loan-to-deposit ratio is 79%. This average is based on the 19 quarters since the last evaluation. When compared to 14 other banks in Cook County with assets between \$100 and \$300 million and a loan portfolio that is 40 to 60% commercial or residential loans, Heritage Community Bank's loan-to-deposit ratio is among the highest. The peer group ranges from 20% to 89%.

### **Response to Complaints**

The bank has not received any complaints regarding its Community Reinvestment Act performance since its last evaluation.

### **Compliance with Anti-Discriminatory Laws and Regulations**

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the examination.